

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 772 - SB 1579

February 28, 2011

SUMMARY OF BILL: Exempts certain small businesses, beginning operations in Tennessee on or after July 1, 2011, or relocating operations to Tennessee on or after July 1, 2011, from paying excise tax for the first five consecutive years of operation in the state. Defines "Tennessee small business" for the purpose of exemption eligibility.

ESTIMATED FISCAL IMPACT:

**Decrease State Revenue - \$32,282,200/FY11-12
Exceeds \$58,390,300/FY12-13 and Subsequent Years**

Assumptions:

- Tennessee small business means any business locating in, or relocating to, this state that employs on a full-time basis no more than 20 employees in its initial tax year of operation; no more than 30 employees in the second and third tax years of operation; and no more than 40 employees in the fourth and fifth tax years of operation.
- The fiscal impact of this bill is dependent on the number of new businesses that begin operations in Tennessee on or after July 1, 2011, the number of businesses that will relocate to Tennessee on or after July 1, 2011, the number of these businesses that will qualify as a Tennessee small business, and the extent of total net earnings of each Tennessee small businesses.
- According to the Department of Revenue (DOR), approximately 14,000 new businesses enter Tennessee each year.
- DOR indicates that 28 percent (or 3,920) will become insolvent during the first-year of operations. As a result, approximately 10,080 new businesses will have earnings sufficient to be liable for excise tax under current law.
- Of the 10,080 new businesses that would be liable for the excise tax, fifty percent (or 5,040) will be considered Tennessee small businesses as a result of meeting the employment criteria required to be eligible for the exemption.
- Of the 5,040 eligible businesses, 50 percent (or 2,520) will have 20 or less employees; 35 percent (or 1,764) will have 21 to 30 employees; and 15 percent (or 756) will have 31 to 40 employees.
- DOR indicates that the average annual excise tax liability for businesses with 20 or less employees is \$3,537; with 21 to 30 employees is \$8,515; and with 31 to 40 employees is \$11,043.

- The decrease in state revenue for FY11-12 will be \$32,282,208 $[(2,520 \times \$3,537) + (1,764 \times \$8,515) + (756 \times \$11,043)]$.
- There will be an additional 5,040 qualified Tennessee small businesses in FY12-13 and subsequent years.
- DOR indicates that 19 percent of eligible businesses will become insolvent in the second year of operations.
- The recurring decrease in state revenue for FY12-13 and subsequent years will exceed \$58,390,296 $\{32,282,208 + [\$32,232,208 \times (100\% - 19\%)]\}$.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/rnc